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SIPDIS

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USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
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TREASURY FOR OASIA/ZELIKOW AND WISNER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

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SUBJECT: Taiwan Economic Review for November 2004

[1](#)1. This cable summarizes selected economic events in Taiwan in November 2004:

- S&P Rating
- China-ASEAN FTA
- Economic Performance
- WTO
- Cross-Strait Economic Normalization
- Environment

S&P Downgrades Taiwan's Debt Outlook

[1](#)2. At the end of November Standard & Poor's downgraded the its outlook for Taiwan's debt from "stable" to "negative." The rating on the debt remains at AA-, but S&P changed its outlook based on a growing budget deficit and increased cross-strait tension. Taiwan officials reacted quickly to express continued confidence despite the downgrade. Taiwan's debt rating remains second only to Singapore in Asia, higher than South Korea and Hong Kong and four steps above China. Earlier in November, Morgan Stanley increased its weighting for Taiwan as a destination for investment funds, and its well-connected office manager called the Standard & Poor announcement "a non-event."

Impact of China-ASEAN FTA on Taiwan

[1](#)3. The November 29, 2004 announcement that China and 10 Association of Southeast Asian Nations (ASEAN) member countries signed a free trade agreement (FTA) fueled local concerns about Taiwan being marginalized politically as well as economically. In response, both Minister of Economic Affairs Ho Mei-yueh and Council for Economic Planning and Developments Vice Chairman Yeh Ming-feng quickly issued statements downplaying the short-term importance of the agreement. Ho noted that there were still many difficulties for China and ASEAN to overcome before they could achieve free trade. Yeh noted Taiwan's sound economic fundamentals and strength in international trade and investment as reasons Taiwan would not be ignored. Kung Ming-hsin, the Director of Mainland Affairs Division at Taiwan Institute of Economic Research, said that the type and scale of production in Taiwan is different from that of China and ASEAN, and the short-term economic impact on Taiwan would be slight.

Economic Performance Thru October 2004

[1](#)4. According to official forecasts released in November, Taiwan's economic growth is expected to slow from 7.3 percent in the first half to 4.7 percent in the second half of 2004 and drop further to 4.5 percent in the second half of 2005. The slowdown follows declines in the growth of exports, industrial production, and private investment. Factors behind the economic slowdown include lower U.S. demand for Taiwan's exports and higher oil prices. Export orders continue to grow, albeit at a slower rate than earlier in the year, but Taiwan's overseas production bases in China now fill a large share of these orders.

WTO

[1](#)5. At the APEC Ministerial Meeting in Santiago, Chile on November 19 Taiwan Economic Minister Ho Mei-yueh and her Russian counterpart completed bilateral negotiations on Russia's WTO accession. In the first eight months of 2004,

the two-way trade between Taiwan and Russia amounted to 1.93 billion US dollars, exceeding the 2003 total for the entire year. In 2003, the two-way trade totaled 1.61 billion US dollars, 35.7 percent growth over 2002 and 5.9 percent of Taiwan's total external trade.

16. Taiwan's representative office in Geneva filed a motion with the WTO Dispute Settlement Body (DSB) on November 18 against India's anti-dumping tariffs on seven Taiwan products. Jeremy Shen, Director of the Multilateral Trade Affairs Division in the Ministry of Economic Affairs (MOEA), claimed that the Indian government did not conduct any investigation prior to levying the tariffs and that the tariffs were unfair and unjustified. This is the first time Taiwan has used the WTO DSB mechanism.

PRC Blocks Cross-Strait Investment

17. In late November 2004, the Mainland Affairs Council (MAC) announced a plan to permit securities firms to set up subsidiaries in China. The plan set a minimum capital requirement of NT\$7 billion, a minimum capital adequacy ratio of 200% and stipulated that the investment in China may not exceed 10% of the net worth of the securities firm. Sixteen securities firms met these requirements and were deemed qualified for investment in China. China requires economies to sign a memorandum of understanding (MOU) before allowing that economy to invest in China's securities firms. Such an MOU between Taiwan and China is unlikely. China is therefore unlikely to allow Taiwan securities firms to establish subsidiaries in China.

Environmental

18. At the annual International Commission on the Conservation of Atlantic Tuna (ICCAT) meeting in New Orleans (Nov 14-21), ICCAT warned that Taiwan needed to improve its adherence to fishing allocations next year, or risk losing its "cooperating non-contracting party" status. Taiwan's Deputy Administrator James Sha who attended the meeting agreed that his fleet had a problem and set out a multi-year payback scheme, whereby Chinese Taipei would harvest fewer bigeye tuna than its share, in order to pay back its overharvest.

19. AIT ESTOFF attended theThe American Institute in Taiwan and the Taiwan Economic and Cultural Office held AIT/TECRO technical environmental talks in San Francisco from November 21-23. The two sides reviewed Ongoing cooperative projects were reviewed and it was agreed to establish criteria for deciding on future cooperative projects. Participants also agreed that two priority areas for future cooperation are assessing mercury levels in Taiwan's air, food and water and analyzing levels of air pollution from the Mmainland. in Taiwan were two priority areas for future cooperation.
KEEGANPAAL